

Ms. Alyce James, Owner
Marion Nursing Center, Inc.
Highway 501
Marion, South Carolina 29571

Re: AC# 3-MAR-J6 – Marion Nursing Center, Inc.

Dear Ms. James:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1995 through September 30, 1996. That report was used to set the rate covering the contract periods beginning May 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

MARION NURSING CENTER, INC.

MARION, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING MAY 1, 1996
AC# 3-MAR-J6**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 4, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Marion Nursing Center, Inc., for the contract periods beginning May 1, 1996 and for the twelve month cost report period ended September 30, 1996, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Marion Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Marion Nursing Center, Inc. dated as of October 1, 1995 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 4, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MARION NURSING CENTER, INC.
Computation of Rate Change
For the Contract Periods
Beginning May 1, 1996
AC# 3-MAR-J6

	<u>05/01/96-</u> <u>09/30/96</u>	<u>10/01/96-</u> <u>09/30/97</u>	<u>10/01/97-</u> <u>09/30/98</u>
Interim reimbursement rate (1)	\$80.78	\$80.53	\$83.05
Adjusted reimbursement rate	<u>78.64</u>	<u>78.42</u>	<u>80.87</u>
Decrease in reimbursement rate	\$ <u><u>2.14</u></u>	\$ <u><u>2.11</u></u>	\$ <u><u>2.18</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated July 17, 1998

MARION NURSING CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period May 1, 1996 Through September 30, 1996
AC# 3-MAR-J6

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$1.13	\$36.62	\$37.75	\$36.62
Dietary	<u>.64</u>	<u>8.19</u>	<u>9.21</u>	<u>8.19</u>
Subtotal	<u>\$1.77</u>	44.81	46.96	44.81
Laundry/Housekeeping/Maint.	\$ -	9.51	7.21	7.21
Administration & Med. Rec.	<u>1.71</u>	<u>6.66</u>	<u>8.37</u>	<u>6.66</u>
Subtotal	<u>\$1.71</u>	60.98	<u>\$62.54</u>	58.68
<u>Costs Not Subject to Standards:</u>				
Utilities		2.23		2.23
Special Services		.87		.87
Medical Supplies & Oxy.		3.29		3.29
Taxes and Insurance		1.22		1.22
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$68.59</u>		66.29
Inflation Factor (6.30%)				4.18
Cost of Capital				6.67
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.71
Cost Incentive				1.77
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(1.98)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$78.64</u>

MARION NURSING CENTER, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-MAR-J6

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.79	\$36.62	\$39.84	\$36.62
Dietary	<u>.66</u>	<u>8.19</u>	<u>9.46</u>	<u>8.19</u>
Subtotal	<u>\$3.45</u>	44.81	49.30	44.81
Laundry/Housekeeping/Maint.	\$ -	9.51	7.32	7.32
Administration & Med. Rec.	<u>1.91</u>	<u>6.69</u>	<u>8.60</u>	<u>6.69</u>
Subtotal	<u>\$1.91</u>	61.01	<u>\$65.22</u>	58.82
<u>Costs Not Subject to Standards:</u>				
Utilities		2.23		2.23
Special Services		.87		.87
Medical Supplies & Oxy.		3.29		3.29
Taxes and Insurance		1.22		1.22
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$68.62</u>		66.43
Inflation Factor (4.90%)				3.26
Cost of Capital				6.73
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.91
Cost Incentive				3.45
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.61)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$78.42</u>

MARION NURSING CENTER, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-MAR-J6

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$36.62	\$41.81	
Dietary		8.19	9.74	
Laundry/Housekeeping/Maint.		<u>9.51</u>	<u>7.72</u>	
Subtotal	<u>\$4.15</u>	54.32	59.27	\$54.32
Administration & Med. Rec.	<u>\$2.72</u>	<u>6.73</u>	<u>9.45</u>	<u>6.73</u>
Subtotal		<u>61.05</u>	<u>\$68.72</u>	61.05
<u>Costs Not Subject to Standards:</u>				
Utilities		2.23		2.23
Special Services		.87		.87
Medical Supplies & Oxy.		3.29		3.29
Taxes and Insurance		1.22		1.22
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$68.66</u>		68.66
Inflation Factor (4.40%)				3.02
Cost of Capital				6.94
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.15
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(4.80)
Minimum Wage Add On				<u>.50</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$80.87</u>

MARION NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Period May 1, 1996 Through September 30, 1996
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,158,545	\$ 952(11) 134(11)	\$14,558(4) 996(4)	\$1,144,077
Dietary	272,221	-	3,582(4) 12,782(10)	255,857
Laundry	61,397	-	-	61,397
Housekeeping	138,799	-	1,690(4)	137,109
Maintenance	99,148	-	392(4)	98,756
Administration & Medical Records	224,340	-	1,377(1) 4,406(2) 9,341(6) 1,290(11)	207,926
Utilities	69,743	-	-	69,743
Special Services	29,216	-	1,916(5)	27,300
Medical Supplies & Oxygen	113,317	-	7,831(12) 2,568(13)	102,918
Taxes & Insurance	41,038	-	3,000(1)	38,038
Legal Fees	60	-	-	60

MARION NURSING CENTER, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Period May 1, 1996 Through September 30, 1996
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	208,964	262(14)	365(1) 475(3) 30(9)	208,356
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	2,416,788	1,348	66,599	2,351,537
Ancillary	26,342	-	-	26,342
Non-Allowable	186,394	4,742(1) 4,406(2) 475(3) 21,218(4) 1,916(5) 9,341(6) 30(9) 12,782(10) 204(11) 7,831(12) 2,568(13)	262(14)	251,645
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,629,524</u>	<u>\$66,861</u>	<u>\$66,861</u>	<u>\$2,629,524</u>
TOTAL PATIENT DAYS	<u>*31,242</u>	<u>-</u>	<u>-</u>	<u>31,242</u>

*Adjusted to 97% occupancy

TOTAL BEDS 88

MARION NURSING CENTER, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,158,545	\$ 952(11) 134(11)	\$14,558(4) 996(4)	\$1,144,077
Dietary	272,221	-	3,582(4) 12,782(10)	255,857
Laundry	61,397	-	-	61,397
Housekeeping	138,799	-	1,690(4)	137,109
Maintenance	99,148	-	392(4)	98,756
Administration & Medical Records	225,293	-	1,377(1) 4,406(2) 9,308(7) 1,290(11)	208,912
Utilities	69,743	-	-	69,743
Special Services	29,216	-	1,916(5)	27,300
Medical Supplies & Oxygen	113,317	-	7,831(12) 2,568(13)	102,918
Taxes & Insurance	41,038	-	3,000(1)	38,038
Legal Fees	60	-	-	60

MARION NURSING CENTER, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	210,894	254(15)	365(1) 475(3) 30(9)	210,278
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	2,419,671	1,340	66,566	2,354,445
Ancillary	26,342	-	-	26,342
Non-Allowable	183,511	4,742(1) 4,406(2) 475(3) 21,218(4) 1,916(5) 9,308(7) 30(9) 12,782(10) 204(11) 7,831(12) 2,568(13)	254(15)	248,737
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,629,524</u>	<u>\$66,820</u>	<u>\$66,820</u>	<u>\$2,629,524</u>
TOTAL PATIENT DAYS	<u>*31,242</u>	<u>-</u>	<u>-</u>	<u>31,242</u>

*Adjusted to 97% occupancy

TOTAL BEDS 88

MARION NURSING CENTER, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,158,545	\$ 952(11) 134(11)	\$14,558(4) 996(4)	\$1,144,077
Dietary	272,221	-	3,582(4) 12,782(10)	255,857
Laundry	61,397	-	-	61,397
Housekeeping	138,799	-	1,690(4)	137,109
Maintenance	99,148	-	392(4)	98,756
Administration & Medical Records	226,624	-	1,377(1) 4,406(2) 9,264(8) 1,290(11)	210,287
Utilities	69,743	-	-	69,743
Special Services	29,216	-	1,916(5)	27,300
Medical Supplies & Oxygen	113,317	-	7,831(12) 2,568(13)	102,918
Taxes & Insurance	41,038	-	3,000(1)	38,038
Legal Fees	60	-	-	60

MARION NURSING CENTER, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-MAR-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	217,356	254(15)	365(1) 475(3) 30(9)	216,740
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	2,427,464	1,340	66,522	2,362,282
Ancillary	26,342	-	-	26,342
Non-Allowable	175,718	4,742(1) 4,406(2) 475(3) 21,218(4) 1,916(5) 9,264(8) 30(9) 12,782(10) 204(11) 7,831(12) 2,568(13)	254(15)	240,900
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,629,524</u>	<u>\$66,776</u>	<u>\$66,776</u>	<u>\$2,629,524</u>
TOTAL PATIENT DAYS	<u>*31,242</u>	<u>-</u>	<u>-</u>	<u>31,242</u>

*Adjusted to 97% occupancy

TOTAL BEDS 88

MARION NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-MAR-J6

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 4,742	
	Cost of Capital		\$ 365
	Administration		1,377
	Taxes, Insurance, and Licenses		3,000
	To disallow reported organization and start-up costs State Plan, Attachment 4.19D HIM-15-1, Section 2134.10		
2	Nonallowable	4,406	
	Administrative - Working Capital		4,406
	To remove non-allowable working capital interest expense HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
3	Nonallowable	475	
	Cost of Capital - Loan Cost		475
	To disallow loan cost related to non-allowable debt State Plan, Attachment 4.19D HIM-15-1, Section 202.1		
4	Nonallowable	21,218	
	Nursing		14,558
	Restorative		996
	Dietary		3,582
	Housekeeping		1,690
	Maintenance		392
	To remove vacation accrued salaries at 9/30/95 HIM-15-1, Section 2304		

MARION NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-MAR-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Therapy	1,916	1,916
	To properly state Part B Co-Insurance State Plan, Attachment 4.19D		
6	Nonallowable Administration	9,341	9,341
	To adjust owner/relative compensation and related benefits to allowable State Plan, Attachment 4.19D (For the rate period 5/01/96 - 9/30/96 only)		
7	Nonallowable Administration	9,308	9,308
	To adjust owner/relative compensation and related benefits to allowable State Plan, Attachment 4.19D (For the rate periods 10/01/96 - 09/30/97 only)		
8	Nonallowable Administration	9,264	9,264
	To adjust owner/relative compensation and related benefits to allowable State Plan, Attachment 4.19D (For the rate periods 10/01/97 - 09/30/98 only)		
9	Fixed Assets	3,677	
	Nonallowable	30	
	Accumulated Depreciation		1,383
	Cost of Capital		30
	Other Equity		2,294
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MARION NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-MAR-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Dietary	12,782	12,782
	To disallow expense due to insufficient documentation HIM-15-1, Section 2304		
11	Nursing	952	
	Restorative	134	
	Nonallowable	204	
	Administration		1,290
	To disallow beauty and barber expense and expenses not adequately documented HIM-15-1, Section 2304		
12	Nonallowable	7,831	
	Medical Supplies and Oxygen		7,831
	To adjust due to insufficient documentation HIM-15-1, Section 2304		
13	Nonallowable	2,568	
	Medical Supplies and Oxygen		2,568
	To remove Durr Medical expense recorded twice HIM-15-1, Section 2304		
14	Cost of Capital	262	
	Nonallowable		262
	To adjust capital return to allowable State Plan, Attachment 4.19D (For the rate period 5/01/96 - 9/30/96 only)		

MARION NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-MAR-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Cost of Capital Nonallowable	254	254
	To adjust capital return to allowable State Plan, Attachment 4.19D (For the rate periods 10/01/96 - 9/30/98 only)		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$89,364</u>	<u>\$89,364</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MARION NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1996
For the Contract Periods May 1, 1996 Through September 30, 1996
AC# 3-MAR-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.9778</u>
Deemed Asset Value (Per Bed)	30,889
Number of Beds	<u>88</u>
Deemed Asset Value	2,718,232
Improvements Since 1981	260,465
Accumulated Depreciation at 9/30/96	<u>(600,948)</u>
Deemed Depreciated Value	2,377,749
Market Rate of Return	<u>0.072</u>
Total Annual Return	171,198
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	171,198
Depreciation Expense	37,090
Amortization Expense	68
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	208,356
Total Patient Days (Minimum 97% Occupancy)	<u>31,242</u>
Cost of Capital Per Diem	\$ <u><u>6.67</u></u>

MARION NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1996
For the Contract Period May 1, 1996 Through September 30, 1996
AC# 3-MAR-J6

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.28
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.27</u>
Reimbursable Cost of Capital Per Diem	\$6.67
Cost of Capital Per Diem	<u>6.67</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

MARION NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1996
 For the Contract Periods October 1, 1996 Through September 30, 1997
 AC# 3-MAR-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>88</u>
Deemed Asset Value	2,813,624
Improvements Since 1981	260,465
Accumulated Depreciation at 9/30/96	<u>(600,948)</u>
Deemed Depreciated Value	2,473,141
Market Rate of Return	<u>0.070</u>
Total Annual Return	173,120
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	173,120
Depreciation Expense	37,090
Amortization Expense	68
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	210,278
Total Patient Days (Minimum 97% Occupancy)	<u>31,242</u>
Cost of Capital Per Diem	\$ <u><u>6.73</u></u>

MARION NURSING CENTER, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended September 30, 1996

For the Contract Periods October 1, 1996 Through September 30, 1997

AC# 3-MAR-J6

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.28
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.27</u>
Reimbursable Cost of Capital Per Diem	\$6.73
Cost of Capital Per Diem	<u>6.73</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

MARION NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1996
 For the Contract Periods October 1, 1997 Through September 30, 1998
 AC# 3-MAR-J6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1144</u>
Deemed Asset Value (Per Bed)	33,022
Number of Beds	<u>88</u>
Deemed Asset Value	2,905,936
Improvements Since 1981	260,465
Accumulated Depreciation at 9/30/96	<u>(600,948)</u>
Deemed Depreciated Value	2,565,453
Market Rate of Return	<u>0.070</u>
Total Annual Return	179,582
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	179,582
Depreciation Expense	37,090
Amortization Expense	68
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	216,740
Total Patient Days (Minimum 97% Occupancy)	<u>31,242</u>
Cost of Capital Per Diem	\$ <u><u>6.94</u></u>

MARION NURSING CENTER, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1996
 For the Contract Periods October 1, 1997 Through September 30, 1998
 AC# 3-MAR-J6

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.28
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.27</u>
Reimbursable Cost of Capital Per Diem	\$6.94
Cost of Capital Per Diem	<u>6.94</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>